Federal Circuit also agreed with the Commission's finding that there was no basis to exclude the SKF bearings sold by Roller Bearing Company/Tyson Bearing Company ("RBC/Tyson") under license from SKF USA but without SKF USA's post-sale technical services, and that it was disingenuous for SKF USA to contend that RBC/Tyson provided equivalent post-sale services to those of SKF USA in the face of SKF USA's stated position that no Respondent can provide equivalent services to those of SKF USA because SKF USA's services are *per se* superior to any services others could provide. Pet. App. 21a-22a, 79a. Accordingly, the Federal Circuit affirmed the Commission's findings that there were no material differences between the SKF bearings sold by SKF USA and the SKF bearings sold by Respondents and, thus, affirmed the determination that there was no infringement. Pet. App. 21a-22a, 95a-96a.

Notwithstanding its arguments about the standard allegedly applied by the Federal Circuit and the Commission, SKF USA did not lose this case because of one or two non-conforming sales. Instead, non-conforming sales amounted to 12.6% of SKF USA sales (Pet. App. 6a, 20a-21a),[4] or hundreds of millions of dollars. That amount of non-

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receiving services on those sales, that customers in several of the "alternate channels of trade" are generally gray market resellers, and that the purchasers and/or end users of these bearings would receive the alleged SKF USA services. *See, e.g.*, Pet. App. 83a-84a (describing obstacles to receiving services).

[4] Contrary to the assertions throughout SKF USA's Petition, the Federal Circuit did not find that 97.4% of SKF USA's bearings sales were accompanied by SKF USA's post-sale technical and engineering services and that only 2.6% were unaccompanied by the services, and these statements certainly are contested by Respondents, notwithstanding SKF USA's statement (Pet. 9) that the 97.4% is "uncontested." In any event, 2.6% of $2.6 billion in bearings sales would still amount to almost $70 million in SKF USA sales of non-conforming product that was not materially different from the gray market bearings sold by Respondents. *See also* JA275.

conforming sales by SKF USA significantly exceeded the sales by respondents during the same five-year period. *See* JA291 n.20; JA288, JA290; *see also* CX-2468.1C.[5]

[5] The statement in the Petition (Pet. 17) that gray market sales of SKF bearings are estimated to exceed $100 million annually is not supported by the cited evidence, or otherwise. To the contrary, as the Commission opinion makes clear, the cited evidence relates to Respondents' sales over a five-year period and demonstrates that SKF's sales of non-conforming bearings were several times greater than Respondents' sales of SKF bearings. *See* Pet. App. 85a n.20 (redacted public version) and JA291 n. 20 (unredacted confidential version).

REASONS FOR DENYING THE PETITION

I. THERE IS NO CONFLICT AMONG THE CIRCUITS REGARDING THE STANDARD APPLIED IN GRAY MARKET CASES.

SKF USA errs in claiming that a conflict exists among the circuits as to the standard used in gray market goods cases. The Federal Circuit decision in this case did not create any conflict among the circuit courts. Instead, the decision below, as well as the other cases cited by SKF USA, demonstrate that all of the circuits properly focus on whether there are "material differences" between the authorized products and the gray market goods in determining whether there is trademark infringement. *See Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 639-40 (1st Cir. 1992); *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68, 73 (2d Cir. 1987); *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 302-03 (3d Cir. 1998); *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1302 (5th Cir. 1997); *American Circuit Breaker Corp. v. Oregon Breakers, Inc.*, 406 F.3d 577, 585-86 (9th Cir. 2005); *Davidoff & CIE, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001).

A. This Case Raises No Conflict Regarding Whether Material Differences Suffice.

SKF USA argues that a conflict exists among various circuits as to whether "material differences suffice" to establish trademark infringement in a gray market case. Initially, given that the Federal Circuit found that there were no material differences, the issue of whether a finding of

material differences would be sufficient to establish infringement is not presented by this case.[6]

Moreover, SKF USA fails to mention, much less demonstrate, how the Federal Circuit's decision below conflicts with the decisions of other circuits on this issue. Pet. 10-11. This failure can likely be attributed to the fact that the Federal Circuit's ruling is consistent with the holdings of other circuits. Citing its previous holding in *Gamut Trading Co. v. International Trade Commission*, 200 F.3d 775 (Fed. Cir. 1999), the Federal Circuit recognized that the "fundamental inquiry in gray market goods cases [is] 'whether there are differences between the foreign and domestic products and if so whether the differences are material.'" Pet. App. 11a-12a. Thus, contrary to SKF USA's assertions, there is no question that all circuits, including the Federal Circuit, focus on "material differences."

B. There Is No Conflict Regarding Whether Inferior Quality Is Required.

Once again, SKF USA fails to mention how the decision below is in conflict with the decision of another circuit on this particular issue. Indeed, the cases cited by SKF USA in support of an alleged "conflict" with respect to this issue are all quality control cases -- cases in which the alleged infringer failed to provide quality control measures (*e.g.*,

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[6] Respondents note that even where material differences are found, consumer confusion may be an issue that still needs to be decided. *See, e.g., Nestle*, 982 F.2d at 641 (finding of material differences gives rise to presumption of confusion, but presumption may be rebutted by evidence to the contrary). To the extent that SKF USA is seeking to raise any conflict about what must be proven and who has the burden to do so once material differences are established, that issue is simply not presented by this case, because the Federal Circuit found that there were no material differences.

inspections of products) utilized by the trademark owner. Quality control was not at issue before the Federal Circuit, and whether "inferior quality is required" was not raised, addressed or decided by that court. The Federal Circuit's decision, thus, could not possibly conflict with other circuit court decisions on this issue.

In any event, no conflict exists as to whether proof of inferior quality is required. SKF USA contends that the First, Second, Fourth and Fifth Circuits do not require proof that the gray market goods are of inferior quality, and the Third Circuit is somehow in conflict with respect to this issue. Pet. 11-12. However, the language from the Third Circuit case cited by SKF USA, *Iberia*, neither indicates nor suggests that proof of inferior quality is required.[7] Moreover, only a few sentences before this cited passage, the *Iberia* court explicitly stated that "courts *do not* require trademark owners to show that the actual quality of the inspected goods is measurably higher than that of the uninspected goods." 150 F.3d at 304 (emphasis added). Thus, SKF USA's contention that there is some conflict in the circuits on this point is clearly misplaced.

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[7] As one district court recognized: "[The plaintiff] is correct in asserting that differences in quality control procedures may be material for purposes of the Lanham Act regardless of whether the products themselves are actually of a higher quality than the allegedly infringing products . . . 'the test is whether the quality control procedures established by the trademark owner are *likely to result* in differences between the products such that consumer confusion regarding the sponsorship of the products could injure the trademark owner's goodwill.'" *See R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, 57 U.S.P.Q.2d (BNA) 1253, 1255 (N.D. Ill. 2000) (emphasis in original) (citing *Iberia*, 150 F.3d at 304).

C. There Is No Conflict Regarding Whether Actual Harm To Goodwill Is Required.

No conflict exists among the circuits as to whether a trademark owner must establish actual harm to its goodwill in a gray market goods case. Once again, the issue of whether a trademark owner must establish actual harm to goodwill was not addressed by the Federal Circuit in the proceeding below; thus, the Federal Circuit's opinion could not be in conflict with the holdings of other circuits on this issue. Because no conflict was created on this issue, SKF USA's request for certiorari has no basis.

SKF USA mischaracterizes the Federal Circuit's decision in arguing that it created a conflict among the circuits by requiring that a trademark owner show that gray market sales "further diminish" the value of the mark if it cannot establish that "all or substantially all" of its goods are accompanied by the characteristics it claims as material differences. Pet. 12. Nowhere in its opinion did the Federal Circuit impose a "further diminishment" requirement on SKF USA.

The issue of "further diminishment" arose when *SKF USA* itself argued to the Commission that the Second Circuit non-gray market quality control case of *Warner-Lambert Company v. Northside Development Corporation*, 86 F.3d 3 (2d Cir. 1996), stood for the proposition that if a trademark owner itself sells non-conforming products, it can still prevent an alleged infringer from selling similarly non-conforming products, as long as the number of non-conforming sales by the trademark owner is *de minimis*. *See* Pet. App. 19a. The Commission rejected this argument, holding that *Warner-Lambert* does *not* stand for such an assertion. Pet. App. 93a. Indeed, there is no mention in the Second Circuit's opinion in *Warner-Lambert* of the phrase

"*de minimis*."[8] Rather, the Second Circuit held that even if some non-conforming goods "survive" a mark holder's quality control procedures and enter the marketplace, the sale of additional nonconforming goods by another can further devalue the trademark; however, to be entitled to relief, a trademark holder who sells nonconforming goods must show that the later sales measurably diminish the value of an already partially devalued mark. Pet. App. 94a.

The Commission held that despite its attempts to rely on *Warner-Lambert*, the case was of no use to SKF USA because SKF USA provided no evidence that sales of the gray market bearings reduced the value of its trademarks beyond the diminution resulting from its own non-conforming sales. Pet. App. 95a. The Commission never ruled that SKF USA was required to show that gray market sales "further diminished" the value of its mark or even that *Warner-Lambert* was applicable in a non-quality control case, but instead, simply ruled that SKF USA's attempts to rely on *Warner-Lambert* could not succeed because SKF USA could not meet the test set forth in that case.

Likewise, the Federal Circuit never imposed a purported "further diminishment" requirement on SKF USA. Nowhere in its opinion did the Federal Circuit state that SKF USA must show that the gray market sales "further diminish" the value of its marks. Rather, the Federal Circuit explicitly held that the Commission did not require proof of further diminishment, and correctly applied the material differences standard. Pet. App. 19a. Accordingly, the Federal Circuit's

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[8] Even if *Warner-Lambert* exempted *de minimis* sales of non-conforming goods from consideration under the material differences test, an issue which the case does not purport to address, SKF USA's sales of non-conforming bearings could not be considered *de minimis*. As stated above, SKF has sold hundreds of millions of dollars worth of non-conforming bearings in the United States.

decision below has not created any conflict with respect to this issue.

SKF USA also mischaracterizes the decisions of other circuits in an effort to create a non-existent conflict. The Fourth Circuit case it cites does not hold that actual loss is required to state a Lanham Act claim, but simply holds that in the absence of an actual loss, it is within the court's discretion whether to award monetary damages. *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 108 (4th Cir. 1991).[9] Likewise, the Third Circuit case cited by SKF USA is equally distinguishable. It concerns a quality control case, similar to *Warner-Lambert*, discussed above, and stands for the same proposition set forth in that case. Specifically, in quality control cases, to establish the existence of "material differences," it must be shown that the quality control procedures established by the trademark owner are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products could injure the trademark owner's goodwill. *Iberia*, 150 F.3d at 304. The fact that this Third Circuit case is consistent with the Second Circuit case of *Warner-Lambert*, and even cites *Warner-Lambert*, refutes SKF USA's contention that there is some conflict between those circuits.

D. There Is No Conflict Regarding Whether "All or Substantially All" of the Goods Must Be Materially Different.

Once again, SKF USA's assertions regarding this purported conflict are riddled with inaccuracies. First, as explained above, while the Federal Circuit did apply an "all

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[9] Moreover, given that damages are not available in Section 337 investigations, the Federal Circuit decision below could not possibly create a conflict on damages issues.

or substantially all" requirement, it did not, as SKF USA argues (Pet. 12-13), impose a "'further diminishment' criterion." The Federal Circuit made quite clear that no such "further diminishment" requirement was ever applied in this case.

Second, SKF USA mischaracterizes the "all or substantially all" requirement imposed by the Federal Circuit. Specifically, SKF USA argues that this standard requires that "all but one of the trademark owner's authorized goods [] be materially different." Pet. 13. It is inexplicable how SKF USA could interpret the "all or substantially all" requirement to mean "all but one," as the Federal Circuit explicitly stated that the "all or *substantially all*" requirement "recognizes that something less than 100% compliance will suffice and certainly permits a small amount of nonconforming goods." Pet. App. 18a-19a. (emphasis in original). The Federal Circuit never states that "all but one" of the trademark owner's goods must contain the material difference. Instead, the opinion makes clear that the inquiry of how many goods constitute "all or substantially all" is highly fact specific. *See id.*

Third, SKF USA incorrectly argues that the imposition of the "all or substantially all" requirement somehow creates a conflict among the circuits because "[n]one of the other circuits has established a quantification requirement for nonconformity in gray market imports." Pet. 13.

To the extent that there may be any conflict among the circuits with respect to quantification, however, such conflict has already been resolved in SKF USA's favor. In *Martin's Herend*, the plaintiff had itself imported certain products that it later sought to prevent the defendant from importing. The Fifth Circuit held that "[a]s long as plaintiffs have ever approved a piece for importation and sale in this country, [the defendant] is free to sell any individual piece of the

same quality from the same product line." 112 F.3d at 1304. The Federal Circuit here, however, held that it would "not go so far as *Martin's Herend* to hold that the sale of even one authorized item lacking a material difference defeats infringement," and instead adopted the "all or substantially all" standard, under which a "single sale of a nonconforming item typically should not defeat a trademark owner's protection." Pet. App. 18a-19a. Not surprisingly, SKF USA does not rely on, or even acknowledge, this apparent difference between the Fifth Circuit and the Federal Circuit, a difference that could only have benefited SKF USA and provides no basis for review of the decision below.[10]

Other than *Warner-Lambert*, which SKF USA once again mischaracterizes,[11] SKF USA points to no other circuit

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[10] Because SKF USA could not meet the more lenient test applied by the Federal Circuit, it is obvious that SKF USA could not meet the more stringent standard applied by *Martin's Herend*. Accordingly, to the extent that there is any conflict between the Federal Circuit and the Fifth Circuit, the resolution of the conflict could not change the outcome of this case. This Court "reviews judgments, not statements in opinions," *Black v. Cutter Laboratories*, 351 U.S. 292, 297 (1956), and does not "decide questions that cannot affect the rights of litigants in the case before them." *Lewis v. Continental Bank Corp.*, 494 U.S. 472, 477 (1990) (internal quotations omitted).

[11] SKF USA seeks to portray *Warner-Lambert* as creating a conflict by suggesting that the Second Circuit held that 4.4% non-conforming product could be ignored under the material differences test. Pet. at 13. There is no such holding in *Warner-Lambert*. Initially, *Warner-Lambert* (which SKF USA has elsewhere argued is inapplicable) is not a gray market case, did not apply the material differences test, and involves quality control issues, not post-sale technical services. In any event, as discussed above, *Warner-Lambert* did not exempt the 4.4% non-conforming sales from consideration, but rather held that such sales did not automatically bar plaintiff's claim and that plaintiff could still prevail if it could show that defendant's non-conforming sales diminished the value of its trademark above and beyond the diminishment caused by plaintiff's own non-conforming sales. It is further clear that *Warner-Lambert* was not holding that a 4.4% test would be applicable in all

as having addressed the issue of how much non-conforming product will preclude a gray market trademark infringement claim based on alleged material differences. The absence of other authority is perhaps not surprising, because most gray market cases have involved *physical* differences. In such cases, the authorized products typically have all contained the claimed feature, so there has been no need to articulate or apply a requirement such as the "all or substantially all" requirement.[12] *See, e.g., Nestle, supra.*[13] By contrast, this

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cases; rather, its willingness to consider an infringement claim notwithstanding the 4.4% non-conforming sales was based on the particular facts and circumstances of the case.

[12] A recent exception to this observation is *Bourdeau Bros., Inc. v. International Trade Commission*, 444 F.3d 1317 (Fed. Cir. 2006), in which the United States trademark owner, Deere & Co., alleged that Bourdeau's importation and sale in the United States of forage harvesters that had been manufactured solely for sale in Europe violated Section 337 of the Tariff Act. The Commission found infringement based on material physical differences between the forage harvestors sold by Deere & Co. and the European forage harvestors sold by Bourdeau (*i.e.*, differences in safety features, differences in warning labels and safety decals, differences in the hitch mechanism, differences in the operator's manuals). The Federal Circuit agreed that such differences would be material, but noted that Bourdeau had argued to the ALJ and the court that Deere *itself* sold European forage harvesters in the United States. It remanded the case to determine whether the material differences standard was satisfied in light of such sales. If Deere could establish that the number of nonconforming products sold in the United States was "so small that substantially all of Deere's sales in the United States were of North American forage harvesters, such that substantially all of the authorized sales were of goods bearing the asserted material differences," Deere would prevail in satisfying the "material differences" standard. *Id.* at 1327.

[13] Nestle's chocolate differed from the gray market chocolate, which was manufactured in Venezuela, with respect to the packaging, composition, shape, price, and quality control. *Nestle*, 982 F.2d at 635. *All* of the chocolate sold or offered for sale in the United States by Nestle differed from the gray market chocolate in these respects; thus, the only question to be answered was whether these differences were material, *i.e.*, whether consumers would likely consider these differences to be relevant when

case involves only *non-physical* differences, a circumstance other circuits have not had occasion to address. *See* Pet. App. 6a, 49a.

Physical features of a product will typically remain part of a product when it reaches the ultimate consumer, regardless of the number of times it is sold. By contrast, when dealing with non-physical features, such as post-sale services, trademark owners must take additional steps to ensure that the non-physical features accompany the product through all levels of sale and resale down to the ultimate consumer. Only by doing so can the feature be considered an integral part of the product and a basis for claiming that a product without the post-sale services or other non-physical feature is materially different. Accordingly, when dealing with only non-physical differences, it is more likely that some of the trademark owner's goods may not be accompanied by the non-physical characteristics that are claimed to constitute material differences, particularly where, as here, the trademark owner intentionally sells product in some sales channels without accompanying services. It was thus appropriate and hardly surprising that the Federal Circuit needed to articulate a test addressing the impact of non-conforming sales on the material differences standard. The test that it articulated was appropriate and consistent with the purposes of trademark law, as discussed below. No other circuit, however, has addressed the application of the material differences test to a case involving only non-physical differences. Therefore, by definition there can be no inter-circuit conflict at this point as to how the test should apply in that context.

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purchasing the chocolate. 982 F.2d at 638 (holding that "the record is pellucid that Nestle never authorized the sale of Venezuelan-made chocolates in Puerto Rico").

II. THE FEDERAL CIRCUIT'S DECISION DOES NOT UNDERMINE TRADEMARK OWNERS AND THE PUBLIC'S PROTECTION AGAINST GRAY MARKET INFRINGEMENT

SKF USA's attempt to appeal to purported public policy concerns is high on rhetoric and low on substance. While concerns regarding materially different gray market goods may be valid, the Federal Circuit's opinion in this action has done nothing to heighten or exacerbate such concerns.

A. The "All or Substantially All" Standard Does Not Ignore Realities of Consumer Markets or the Protection of Consumer Expectations.

SKF USA argues that the Federal Circuit's "all or substantially all" standard is impossible for a trademark owner to satisfy because "even the most conscientious and scrupulous trademark owners . . . cannot prevent nonconforming trademarked goods from ever entering the stream of commerce." Pet. 14. Once again, SKF USA mischaracterizes the Federal Court's decision.

This action does not involve a "conscientious and scrupulous" trademark owner who implemented the most "rigorous and demanding manufacturing, distribution, and service procedures." Pet. 14. Instead, SKF USA intentionally chose to sell *hundreds of millions* of dollars of bearings that were not accompanied by its post-sale technical support. This case is thus entirely distinct from the quality control cases relied on by SKF USA, which acknowledge the practical reality that, despite the lapses one must realistically expect under even the most rigorous quality controls, a trademark owner nonetheless has the right to protect the quality controls it consistently implements with respect to all or substantially all of its products. Not only do the cases cited by SKF USA *not* involve the purposeful nonconformity

involved here, they do not support the notion that a trademark owner can establish the existence of material differences based on procedures it has chosen *not* to apply. *See* Pet. 15 (citing *Philip Morris, Inc. v. Allen Distributors, Inc.*, 48 F. Supp. 2d 844, 848 (S.D. Ind. 1999); *R.J. Reynolds Tobacco Co.* 57 U.S.P.Q.2d at 1255; *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986)). In effect, SKF USA has chosen to sell two products – one with services and one without – yet wishes to be free at the same time to claim that others are selling a materially different product when they import and sell the second product.

SKF USA argues that the Federal Circuit's "all or substantially all" standard is impracticable in the context of non-physical differences where the nonconforming nature of the sales is intentional. Pet. 15. For example, SKF USA argues that a manufacturer of a guitar may offer extensive warranties to nearly all of its customers, but agree not to offer such warranties to rock musicians who use guitars in a destructive manner. Pet. 15. What SKF USA fails to acknowledge is that the material difference standard entails a comparison of authorized products to unauthorized products – regardless of the channels of trade through which those products may have traveled on their way to the ultimate consumer. *See* Pet. App. 22a, 63a (rejecting SKF USA's channels of distribution argument); *Gamut*, 200 F.3d at 779. Nothing in gray market precedent supports the exemption of certain channels of trade or certain classes of consumers from the material differences inquiry where a trademark owner purposefully chooses not to offer services.[14]

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[14] Moreover, the underpinning of SKF USA's argument that it could treat different sales channels differently was its claim that consumers purchasing in different channels had different expectations as to what, if any, post-sale technical services they would receive. As the Federal

SKF USA's argument that the Commission should have ignored its non-conforming product sold in certain sales channels in the United States is disingenuous in light of the relief it seeks under Section 337. SKF USA has asked for a general exclusion order that would block *all* unauthorized imports of SKF bearings, without regard to whether such bearings would be resold in channels in which consumers allegedly did not expect the claimed post-sale services that SKF USA asserted were a material difference. There is no authority to support this proposition, much less a conflict among the circuits.

SKF USA also argues that the Federal Circuit's "all or substantially all" standard conflicts with "fundamental tenets of the trademark law directed to protecting the expectations of average consumers." Pet. 16. Contrary to SKF USA's contention, the "all or substantially all" requirement is consistent with the protection of consumer expectations. In enacting the Lanham Act to protect consumers, lawmakers recognized that "[e]very product is composed of a bundle of characteristics . . . Consumers who purchase a particular product expect to receive the same special characteristics every time." *See Davidoff*, 263 F.3d at 1301 (internal citations omitted). Thus, "when a product *identical* to a domestic product is imported into the United States under the same mark, no violation of the Lanham Trade-Mark Act occurs . . . In such a situation, consumers get exactly the bundle of characteristics that they associate with the mark . . . ." *See Nestle*, 982 F.2d at 641 (emphasis in original). If less than "substantially all" of a trademark owner's products are sold without being accompanied by a certain characteristic, which, in this case, constituted sales

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Circuit and the Commission noted in the proceedings below, however, SKF USA failed to establish that purchasers of SKF bearings in the "alternate channels of trade" had any such different expectations. Pet. App. 21a, 80a, 86a-88a.

totaling hundreds of millions of dollars, the trademark owner cannot argue that this characteristic is included in the "bundle" that consumers expect to receive every time.

B. The "All or Substantially All" Standard Does Not Undermine The Remedy Against Gray Market Imports, But Rather Ensures That Such a Remedy Is Appropriate.

SKF USA argues that the importation of gray market goods demands a unique legal solution, namely, *in rem* actions under Section 337, and contends that the Federal Circuit's decision endangers the exclusion remedies available under Section 337. Pet. 18-19. Respondents agree that *in rem* actions and remedies under Section 337(d)(2) of the Tariff Act of 1930, 19 U.S.C. §1337(d)(2) are unique, in that they allow trademark owners to prevent importation by all others of entire classes of genuine products. These remedies are not appropriate, however, when the subject products are identical to products sold by the trademark owner itself.

Indeed, as noted above, SKF USA here sought a general exclusion order under Section 337 against *all* imports of unauthorized SKF bearings, regardless of whether those bearings were to be sold in channels where SKF USA itself did not offer post-sale technical support. Thus, SKF USA sought to exclude bearings identical to hundreds of millions of dollars of bearings SKF USA itself has sold in the United States. Before a party is permitted to obtain the extreme relief under Section 337 of excluding imports of *all* unauthorized goods, it should be required to prove that the gray market goods are materially different from "all or substantially all" of the authorized goods sold by the trademark owner. To allow otherwise would be to disregard consumer expectations in favor of providing trademark owners with an exclusive distributorship. Accordingly, SKF

USA's contention that the Federal Circuit's decision somehow endangers exclusion remedies under Section 337 is simply incorrect. To the contrary, it ensures that these remedies comport with the goals of the Lanham Act.

CONCLUSION

The Petition for a writ of certiorari should be denied.

Respectfully submitted.

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Supreme Court of the United States

SKF USA INC.,

Petitioner,

v.

INTERNATIONAL TRADE COMMISSION, BEARINGS LIMITED, and MCGUIRE BEARING COMPANY,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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RULE 29.6 STATEMENT

No change has occurred with regard to the disclosure statement made on page ii of Petitioner's Petition For A Writ of Certiorari.

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INTRODUCTION

The briefs of the Government and Bearings Limited et al. in opposition confirm the need for review by this Court. In fact, the briefs highlight the considerable differences that exist among the circuits as to the appropriate legal standard for finding trademark infringement by gray market goods.

But what the Government does not even mention, and Bearings Limited mentions only in a footnote, is *Bourdeau Bros., Inc. v. International Trade Commission*, 444 F.3d 1317 (Fed. Cir. Mar. 20, 2006), the first gray market decision issued by the Federal Circuit since its 2005 opinion in *SKF USA Inc. v. International Trade Commission*, 423 F.3d 1307 (Fed. Cir. 2005). *Bourdeau* cites to *SKF USA* no fewer than seventeen times, and vacates and remands the International Trade Commission's finding of gray market infringement in favor of the trademark owner -- The John Deere Company -- by applying the Federal Circuit's new material difference standard stemming from *SKF USA*. The decision validates Petitioner's concern that, in the absence of review by this Court, the practical effect of the Federal Circuit's newly articulated standard is to bar trademark owners from obtaining relief against the growing onslaught of infringing gray market imports through the most effective remedy -- a Section 337 action. Because the Federal Circuit has exclusive jurisdiction of such actions, there is no time or opportunity for further "ventilation" of the issue, in the context in which it is most likely to arise. Govt. Br. at 8-9.

Having ignored the impact of the *SKF USA* legal standard in *Bourdeau*, the Government, like Bearings Limited, concentrates on its argument as to why there is no conflict among the circuits regarding the criteria for gray market infringement. The Government's arguments inconsistently mischaracterize the opinion below and attempt to narrow the issue in a manner that takes it out of context. The Government focuses its "all or substantially all" argument to address

whether a single lapse by a trademark owner deprives the owner of protection. It then states that only one circuit besides the Federal Circuit, the Fifth Circuit, has addressed this issue and that there is no reviewable conflict between the two, or among the other circuits that have not addressed it. Bearings Limited presents a rambling discussion of case law attempting to show absolute consistency among all circuits.

The Government's manipulation of the issue and Bearings Limited's discussion belie the fact that the concept of "all or substantially all" has arisen in different manners among the circuits. There is a conflict among the circuits on the standards for determining gray market trademark infringement. Moreover, contrary to both Respondents' arguments, the Federal Circuit has created the strictest standard for proving infringement, not only by adopting the single-sale "all or substantially all" position, but also by superimposing a requirement to prove further diminishment of the trademark's value as an additional obstacle to relief.

The Federal Circuit's new and exceedingly stringent hybrid standard undermines the core principles of gray market trademark law and necessarily creates a direct conflict that cuts deeply across the precedent of each of its sister circuits that has established a material difference test.

I. THE FEDERAL CIRCUIT'S STANDARD CREATES A PRONOUNCED CONFLICT WITH OTHER CIRCUITS' APPROACHES.

A. The "All or Substantially All" Requirement Alone Justifies this Court's Review.

Consistent with the theme of downplaying the extent of circuit conflict, the Respondents fail to appreciate even the precise scope of the direct conflict that they concede. Specifically, the Government claims that "only one other circuit has addressed the question at issue here"—namely, the "all or substantially all" requirement of the first prong of the Federal Circuit's standard. Govt. Br. at 5, 8; BL Br. at 14.

The Government states that there may be a conflict between how the two circuits apply the standard, but it need not be resolved now. However, in addition to the Fifth Circuit, the First, Second, and Third Circuits each have specifically opined on the issue. None has adopted anything approaching the strict quantitative standard imposed by the Federal Circuit in this case. Instead, they have applied more flexible standards that focus on likelihood of consumer confusion in the particular circumstances, which is the ultimate benchmark of Lanham Act jurisprudence. An "all or substantially all" quantitative standard does not allow for circumstances in which a trademark owner may distribute nonconforming goods in a manner that it has reasonably determined will not confuse customers.

For example, in *Warner-Lambert Co. v. Northside Development Corp.*, 86 F.3d 3 (2d Cir. 1996), the Second Circuit addressed the extent to which the trademark owner's authorized goods could be nonconforming, and it held that the trademark owner was entitled to injunctive relief even though the trademark owner was responsible for *4.4%* of product in the marketplace being nonconforming. *Warner-Lambert*, as Respondents correctly note, was a product degradation case (stale cough drops). However, they misleadingly contend that the case is "not a gray market case." Govt. Br. at 12; BL Br. at 14 n. 11. The product degradation line of cases is a subset of gray market case law that is analyzed under all of the same standards, but that requires trademark owners to establish, in addition to a material difference, that "the unauthorized products [are] inferior" or "diminish the value of their mark." *Monsanto Co. v. Haskel Trading, Inc.*, 13 F. Supp. 2d 349, 356-57 & n.5 (E.D.N.Y. 1998). The failure to appreciate this nuance is presumably the reason Respondents discount the "further diminishment" prong of the material difference standard articulated by the Federal Circuit in *SKF USA*. Moreover, as noted in the petition, *Warner-Lambert* is the only case found where a numerical percentage of

nonconforming product was stated. The 4.4% of nonconforming goods did not deprive the trademark owner of protection there and SKF USA's 2.6%, discussed in more detail in the petition, fairs well in comparison.[1]

The Third Circuit, in *Iberia Foods Corp. v. Romeo,* 150 F.3d 298 (3d Cir. 1998), has also opined on the issue, noting that "the [appropriate] test is whether the quality control procedures established by the trademark owner [the material difference at issue], are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the product could injure the trademark owner's goodwill." *Id.* at 304. While the Third Circuit's language is not quite as developed as the decisions of other circuits, its import is clear: "all or substantially all" is not the standard. Rather, what is required in that circuit is that enough of the trademark owner's products conform to create a material difference vis-à-vis the imported gray market products and generate a likelihood of confusion.[2] The Government's assertion that *Iberia Foods* does not address the "all or substantially all" issue (Govt. Br. at 9) depends on its narrow

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[1] Bearings Limited devotes a substantial portion of its brief attempting to portray SKF USA's petition as raising factual issues. The portrayal is both misleading and inaccurate. The Government's brief settles the "fact-bound question" – 2.6% of SKF USA's sales were found not to have been accompanied by post-sale technical services. Govt. Br. at 7. Bearings Limited, however, quarrels with the use of percentages, preferring to state repeatedly that SKF USA has put "hundreds of millions of dollars" of non-materially different bearings on the market. BL Br. at 2, 4, 11 n. 8 and 20. Percentages are the only way to put matters in context; a large actual dollar amount in one industry may be insignificant in another. Using 2.6%, a number with which SKF USA disagrees, results in less than $14 million per year, an insignificant amount compared to annual SKF USA sales of over $525 million and estimated annual gray market bearing sales of over $100 million.

[2] In this context, the 97.4% of SKF USA's sales found to be materially different would likely meet the Third Circuit's standard for finding a likelihood of confusion.

view of the "issue"; the Third Circuit chose a conflicting standard in lieu of "all or substantially all."

Indeed, as discussed in the petition, district courts in other circuits that have been presented with the issue of whether the "all or substantially all" standard is appropriate have looked to the Third Circuit's *Iberia Foods* decision for guidance. In *Philip Morris, Inc. v. Allen Distributors, Inc.*, 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999), for example, the court, citing *Iberia Foods*, held that the plaintiff's and the defendants' products differed materially, despite the plaintiff's failure to show either that "all or substantially all" of its products conformed or that there was further diminishment. Similarly, in *R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores Inc.*, 57 U.S.P.Q.2d (BNA) 1253 (N.D. Ill. 2000), the court, citing *Iberia Foods* among other decisions, held that the plaintiff "need not show that its procedures succeed in preventing *virtually all* stale products from reaching the consumer. Accordingly, the import of the Third Circuit's decision has been widely understood.

Finally, the First Circuit, commenting on the "materiality threshold" in gray market cases, has noted "that the threshold of materiality is always quite low." *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992). Consistent with the underlying principles of the Lanham Act, the court reasoned that "[a]ny higher threshold would endanger a manufacturer's investment in product goodwill and unduly subject consumers to potential confusion by severing the tie between a manufacturer's protected mark and its associated bundle of traits." *Id.*

Accordingly, even if the conflict were limited to the first prong of the Federal Circuit's newly articulated standard as argued by the Government, "all or substantially all" defined to be no more than a single sale, which clearly it is not, the breadth of the conflict is much greater than the Government or Bearings Limited concedes.

B. Other Aspects of the Federal Circuit's Standard Broaden the Conflict.

By upholding the Commission's application of *Warner-Lambert*, the Federal Circuit added a second prong to its standard that requires the trademark owner to prove that "'later sales measurably diminish the value of'" or "further devalue[]" its mark. Pet. App. 7a, 19a (quoting *Warner-Lambert*, 86 F.3d at 7). Yet the Government states "the court below did not hold that a plaintiff must show that there has been a diminishment in the value of the mark." Govt. Br. at 10-11; BL Br. at 10. This misstatement of the standard created in *SKF USA* cannot be used to support the argument that there is no circuit conflict. In practice, the second prong of the new standard necessarily translates into a requirement that the trademark owner establish that the infringing products are of an inferior quality and that they result in harm to the trademark owner's mark. Neither the Government nor Bearings Limited suggests any way in which a plaintiff could show further diminishment from gray market infringement without proof of inferior quality.

Even viewed apart from the "all or substantially all" prong, the "further diminishment" prong directly conflicts with the majority of material difference standards articulated by other circuits. The First, Second, Fourth, and Fifth Circuits have each held that proof that the gray market goods are inferior in quality is not necessary to prove infringement.[3] Indeed, "the assertion that plaintiffs must prove that defendants' unauthorized products [are] inferior...would turn the Lanham

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[3] *See Nestle*, 982 F.2d at 640 ("A showing that the alleged infringing product suffers in quality is not necessary to prove a Lanham Trade-Mark Act violation."); *El Greco Leather Prod. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986) ("the actual quality of the goods is irrelevant"); *Iberia Foods*, 150 F.3d at 304 (citing *El Greco*); *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991) (same); *Martin's Herend Imports, Inc., v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1302 (5th Cir. 1997) (agreeing with *Nestle*'s approach).

Act on its head." *Monsanto*, 13 F. Supp. 2d at 356-57 (quotation omitted). Moreover, the First Circuit recognized in *Nestle* that "[t]he Lanham Act contains no...proof-of-injury requirement. By its very nature, trademark infringement results in irreparable harm because the attendant loss of profits, goodwill, and reputation cannot be satisfactorily quantified....Hence, irreparable harm flows from an unlawful trademark infringement as a matter of law." 982 F.2d at 640 (citation omitted).

In a similar light, Respondents offer an unsupportable reading of the Fourth Circuit's opinion in *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991). The Government claims that the Fourth Circuit "held only that district courts have discretion to refuse to award damages in the absence of actual loss," and that Petitioner quoted "the court's description of the litigant's argument" rather than the court's holding. Govt. Br. at 11 & n.1. To the contrary, the Fourth Circuit cited the district court's holding that, despite the infringement, "the evidence does not show any damages suffered by Shell and none will be assessed," and held that "we do not believe that [the district court] misinterpreted the *requirements* for awarding damages." 928 F.2d at 108 (emphasis added). The Fourth Circuit's discussion of the district court's discretionary equitable power to award damages without proof of actual loss did not concern injury to the trademark owner's good will, but instead restitution of the "infringer's profits." *Id.* Accordingly, the court effectively concluded, as recognized by the plaintiff and quoted by Petitioner, "that a finding of actual loss[] is a prerequisite to an award of damages." *Id.* Damages, of course, are not relevant in a Section 337 action, and do not go to the issue of infringement.

Indeed, the Federal Circuit's second prong effectively undoes Congress's explicit elimination of a requirement that the complainant prove injury or harm. Such a requirement existed in gray market Section 337 cases before the enactment